

**State of Alaska**  
**ALASKA RETIREMENT MANAGEMENT BOARD**  
**DEFINED CONTRIBUTION PLAN COMMITTEE MEETING**

**Captain Cook Hotel – Club Room II**  
**939 West 5<sup>th</sup> Avenue**  
**Anchorage, Alaska**

**December 6, 2017**

**ATTENDANCE**

**Committee Present:** Bob Williams, *Chair*  
Tom Brice  
Rob Johnson  
Commissioner Leslie Ridle  
Norman West

**Committee Absent:** None

**Department of Revenue Staff Present:**

Bob Mitchell (Chief Investment Officer)  
Pamela Leary (Director, Treasury Division)  
Zachary Hanna (Deputy Chief Investment Officer)  
Shane Carson (State Investment Officer)  
Mike Barnhill (State Investment Officer)  
Stephanie Alexander (Board Liaison)

**Department of Administration Staff Present:**

Ajay Desai (Director, Division of Retirement & Benefits)  
Kevin Worley (Chief Financial Officer, Div. of Retirement & Benefits)  
Kathy Lea (Chief Pension Officer, Div. of Ret. & Benefits) *by telephone*  
Melanie Helmick (State Social Security Administrator)

**Others Present:** Liz Davidsen (Alaska Director, Empower Retirement)  
Tom Westcott (Alaska Professional Firefighters Association)  
A representative from the National Education Association (unidentified)

**I. CALL TO ORDER**

CHAIR BOB WILLIAMS called the meeting to order at 1:38 p.m. and then immediately recessed until 2:21 p.m. to accommodate trustees coming from another committee meeting.

**II. ROLL CALL**

Four Committee members was present at roll call to form a quorum. Mr. Johnson joined the

meeting shortly after roll call.

### **III. PUBLIC MEETING NOTICE**

MS. ALEXANDER verified that public meeting notice requirements had been met.

### **IV. A. APPROVAL OF AGENDA**

MR. BRICE moved to approve the agenda. MR. WEST seconded. The agenda was approved.

### **B. APPROVAL OF MINUTES – October 4, 2017**

MR. BRICE moved to approve the minutes of the October 4, 2017 meeting. MR. WEST seconded. The motion passed without objection.

### **V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES**

TOM WESTCOTT, President of the Alaska Professional Firefighters Association, stated that he wanted to put on record what they feel are inadequacies with Tier IV, specifically related to public safety. Most firefighters in Alaska have neither Social Security nor SBS (Supplemental Benefit System), so they are looking at Tier IV as a stand-alone benefit plan. That means 5% from their employer into a 401(a), which is less than a Social Security contribution, and the employee contributes 8%. Their retirement is built on a 13% contribution of income.

MR. WESTCOTT explained that the average public safety person comes onto the job at age 30, and they normally look at about a 25-year career. He was that average employee, having spent six years in the Air Force, followed by attending college. The physical and mental demands of these jobs limit longevity. Plans across the country, both DB (defined benefit) and DCR (defined contribution), account for this by higher contributions towards public safety. Tier IV makes no distinction. As someone who is 48 and takes physical fitness seriously, he can feel what age and the demands of the job are doing to him. He has witnessed people with something as simple as AFIB (atrial fibrillation) go on medication, and they can no longer work at the Anchorage Fire Department because of medical standards. In 2006, the Legislature created Tier IV in an effort to stop the unfunded liability from growing. They may have taken it off the State's books, but it is still there at the individual level. They created a plan that fails to prepare individuals for a self-sufficient retirement. The actuary that the Alaska Professional Firefighters Association hired estimated about a 25% income replacement for the average public safety employee after 25 years. Nationwide's tools on its web site estimate about a third. And that does not even address medical coverage for someone who is 55 and leaves the job.

MR. WESTCOTT stated that good, reasonable solutions that account for cost, risk and benefits are out there. Washington State has a defined benefit plan that is not overly generous but is over 100% funded with reasonable contribution rates on both sides. They did it right. Those kinds of solutions are out there. Coming to some of the meetings and hearing the Committee discuss holding the employers' 5% contribution in a separate account, eliminating percentage targets of income replacements for individuals going into retirement, and other solutions like that, he feels it is missing the mark. The big obvious issue is the funding level.

MR. WESTCOTT said he recognized that the ARMB does not make policy, but he asked that it dig deep and ask difficult questions about how Tier IV is performing and how it is preparing individuals for retirement, and then share the findings with policymakers.

CHAIR WILLIAMS thanked Mr. Westcott for his testimony. No one else in the room or listening by telephone indicated they wished to speak, and the Chair closed public comment.

## **VI. CHIEF PENSION OFFICER REPORT**

### **a. Outreach Activity for the Previous Quarter**

KATHY LEA, Chief Pension Officer in the Division of Retirement and Benefits (DRB) in the Department of Administration, reminded everyone of the discussion at the last meeting about two new disbursement options and the possibility of getting legislation introduced to that effect. She reported that proposed legislation was accepted by the Governor's Office today. The bill would remove the disbursement options that are specifically listed in statute so they can be put in regulation instead. It would allow flexibility to add and change options in the future through the regulation process. That will allow the Treasury Division time to review and vet the disbursement options that will be recommended.

The proposed defined contribution plan (DCR) change would retain the employer contribution portion as a separate investment and not distribute it until retirement age. MS. LEA said the proposal has been vetted through DRB's legal team and tax consultant. DRB will be working with Treasury on a recommendation for the default investment option for the employer portion of contributions.

MS. LEA reported that DRB added cobranding to the communications from Empower Retirement to the plan members. Many members are not making the association that Empower is the State's recordkeeper and represents the retirement plan. The Division is also considering using its Twitter and Facebook pages to put out more information regarding retirement readiness reviews that members can take advantage of. Another idea is sending out emails for different events, such as the recent event for the three-month "free look" at Managed Accounts provided by Empower. A second event held in recent months was the National Retirement Security Week, which DRB does in conjunction with Empower. DRB representatives held seminars, met with individuals, and manned kiosks in the Atwood Building and State Office Building to answer questions and to distribute information on the Deferred Compensation Plan.

LIZ DAVIDSEN, director of the Empower Retirement office in Anchorage, stated that the "free look" at Managed Accounts was the best free-look period they have ever had at Empower. It matters because they reached out to so many participants to do retirement-readiness reviews. They met with 627 people to review their current situation, what their income will look like at retirement age, and to explain the tools the plan has available to help them reach their retirement income goal.

MR. BRICE asked how Empower targets the people they talk to. MS. DAVIDSEN replied that Empower shifted to the advisor model this year, and they reach out to plan participants who are closer to retirement because they typically need more help.

MR. BRICE said it might behoove Empower to notify plan participants after a year of service or once they complete probation – at the front end of their career – so they can start thinking about retirement planning early.

COMMISSIONER RIDLE said she, Ms. Lea and Mr. Desai were talking yesterday that the State, as a whole, does not do a good job of onboarding. The Division of Personnel wants to work on that. The first day at work is not the right day to talk about deferred compensation; it is actually six months or a year later.

CHAIR WILLIAMS asked if the retirement readiness reviews included the defined benefit plan benefits. MS. DAVIDSEN said Empower integrates the defined benefits for participants in other tiers so they get a real picture, because maybe they can be more flexible in the asset allocation of their deferred compensation piece.

MS. LEA stated that the latest event focused on people who were very close to retirement, so they were predominantly defined benefit plan participants. There are not many people in the defined contribution plan who are approaching retirement eligibility. The Division will be meeting with Empower in February to go over the focus for the next two years. That will include how to get information about the defined contribution plans to participants better than is happening today, and how to get participants to engage with their plan.

MR. BRICE mentioned that he represented 1,700-1,800 employees in the defined contribution plan. A large portion of them still use flip-phones and do not like computers. High-tech is one way to contact plan participants but it is not always the best way to reach some people.

MS. DAVIDSEN reminded the committee that the Anchorage Empower team will travel to talk to groups of people anywhere in the state.

MS. LEA announced two WebEx meetings scheduled on different days next week. There will be information about the State 457 Plan (Deferred Compensation) on both the DRB web page and Empower's web page. The WebEx meetings are designed for the employer to get information and be able to determine whether or not they want to enroll. DRB will be accepting enrollments to start with the first pay period in January 2018. A requirement for enrollment is that an employer be current with their PERS or TRS contributions.

MS. LEA reported that in the third quarter the combined assets in all four plans reached \$6 billion. For the first time in a long time, the inflow of assets exceeded the outflows. DRB is attributing that to the stay-in-the-plan campaign that has been running for almost two years, and the new retirement readiness reviews. They believe these are slowing down and reducing the number of distributions from the plan.

MS. LEA said that for fiscal year 2017 the Division of Retirement & Benefits had 87,444 phone calls, 7,116 appointments and walk-ins, 12,047 future benefit projections (defined benefits), and 2,130 defined benefit retirement applications. The plan is maturing, so they had 1,508 death notices

in the fiscal year, and that number is going up every year. The Division received 93,857 correspondence requests, predominantly through e-mail. They did 2,655 COLA (cost-of-living-adjustment) actions. The meeting packet also contained a list of outreach statistics, including seminars, one-on-one meetings in Anchorage and Juneau, etc.

MS. LEA stated that DRB is continuing with its educational videos about the plan provisions. The new employee orientation video for State employees was posted in September. They are ready to roll out three political subdivision videos – one for just political subdivisions PERS/TRS, one for those political subdivisions that participate in the SBS Plan, and another one for the political subdivisions that participate in the Group Health and Life Plans. The videos are becoming more and more professionally produced and will be posted on YouTube as well as the DRB web site.

MS. LEA informed the committee that the reduction in the travel budget in the last couple of years is presenting a significant challenge for the Division's outreach efforts. For calendar year 2017 so far, they have reached only 4,172 people. In prior years with a full travel budget, they have reached around 7,000 people. They have been supplementing with WebEx presentations and seminars, and telephonic one-on-ones. The telephone contacts are successful, but they are not getting as many people to call and set up an appointment as they would get if the counselors were on location. The Division is not getting a very good response with the WebEx presentations, and much of that is due to computer security at different employers, where features like WebEx and YouTube are blocked.

MR. JOHNSON asked if the travel budget funds to educate the groups and so on came from the PERS and TRS trust funds or from general fund sources.

MS. LEA replied that almost all the Division's expenses, including the travel budget, come from the trusts. However, the Department of Administration itself is under budget constraints, so the Division has had to cut its expenses as well as everyone else.

COMMISSIONER RIDLE added that the department has been under the travel restriction for about two years. DRB has statistics available now on how it is working, and perhaps the travel budget could be revisited.

Regarding the bill being drafted to propose two new disbursement options in the DCR plan, COMMISSIONER RIDLE said it would be helpful for the Division, when the bill is introduced in the Legislature, to have an official letter of support from the Alaska Retirement Management Board (ARMB).

Responding to the Chair's query, MR. JOHNSON suggested that Chair Williams bring it up in his committee report to the Board tomorrow and get feedback. If it was positive to give written support, the Board would authorize the Board Chair to sign a letter once it was drafted.

**b. Bona Fide Separation Presentation**

MS. LEA had a short slide presentation entitled "Bona Fide Separation & Reemployment after Retirement," dated December 2017 (*copy on file at the ARMB office*). The committee, at its last

meeting, had requested an overview of the bona fide regulations that were recently adopted, including why they were needed and how it was going to work.

MS. LEA gave the background on discovering from DRB's tax counsel that the required break in service for employees who retire and come back to work for the same employer was insufficient to meet the Internal Revenue Service's Safe Harbor requirements. The normal retirement age regulation has been in effect since 2007 for private plans. There was a lengthy public comment period for government plans because these plans have service-based retirements at any age. The regulations were supposed to go into effect January 1, 2017, however, the Trump Administration has held them up, and they have not been adopted. The IRS has signaled that it is going to continue to use age 62 as normal retirement for taxation purposes for government plans.

MS. LEA stated that this relates to Alaska's separation of employment in having a bona fide separation because age 62 is now the normal age, but the State plan age is 60 for normal retirement. Alaska's plans do not allow for any type of in-service distribution, which is when an employee can withdraw their retirement funds prior to having a bona fide separation or some other kind of event. Because the normal retirement age in Alaska's plans is below 62, such withdrawal of retirement funds is considered an early distribution by the IRS. This becomes a qualification issue, because if people are doing what is effectively an in-service distribution, Alaska can lose its tax qualification.

MS. LEA explained that under the current rehire rules, Alaska plans require a 60-day break in service before a retiree can return to any kind of non-covered employment with the same employer. If a member re-employs prior to the break-in-service requirements being met, the separation of employment can be deemed to be invalid – particularly if there is a prearrangement with the employer to retire and come back to work.

MS. LEA said the Division discovered, while going through the process, that most of the employers did not understand the break-in-service rules to begin with. As part of the process to educate on the new rules, the DRB has done a very aggressive education effort with employers so that they understand.

MS. LEA said that tax counsel provided the Division with additional information on what constitutes a prearrangement. That is any discussion or any written communication between the employee and the employer for rehire after retirement. From the IRS perspective, if that prearrangement exists, automatically the retirement is invalid. The new regulations will contain consequences to the employee if this happens, which is why DRB is doing such an aggressive education campaign with both plan members and the employers. The information from tax counsel expanded the group that the DRB believed were ineligible, so "work in any capacity" includes temporary work, project work, substitute teachers, and even independent contractors. They all have to meet the established break-in-service requirements based on their age at retirement before they can re-employ.

MS. LEA stated that the key factor to understand about the rules is that the Safe Harbor is a minimum of six months' break in service required for anyone who is under age 62, the normal

retirement age. The required break in service had started out being 12 months. With feedback from employers, particularly teachers and the issue about substitute teaching, DRB worked with tax counsel, which found that six months was the lowest break-in-service period that had been used by another government plan that received a positive private letter ruling from the IRS. Tax counsel deemed that Alaska could go as low as six months but no further.

COMMISSIONER RIDLE mentioned that the Department of Administration had met with representatives of the NEA (National Education Association) a couple of months ago. At that time, the Department thought that teachers had to wait six months (and not count the summer), but she thought DRB had determined that summer is part of the six-month count.

CHAIR WILLIAMS asked when the six-month clock starts for teachers; for example, was it the last day of school or the end of their contract.

MS. LEA stated that the clock starts on the teacher's date of retirement. She said the six-month break-in-service requirement applies to employees under age 62. For employees who are 62 or older, the break is 60 days. She confirmed that tax counsel's research determined that the summer counts for teachers as part of the required break in service. No restriction applies to work in a non-covered position for any other system employer. A person under age 62 may have been working as a State employee and not be able to return to the State in any capacity for six months, but they could work for a city in a non-covered position.

MR. JOHNSON had a question about the creation of parallel employer circumstances. MS. LEA replied that DRB has been questioned about a teacher being an independent contractor for a company/group that serves a school district by providing substitutes. DRB's answer is no. The IRS requirement does not have anything to do with what retirement system a person is in; it all comes back to whether or not a person's termination was bona fide.

MS. LEA stated that the Division adopted a retiree return-to-work policy in September, which the Commissioner of Administration adopted. This was done on purpose, even though it has not been enforced yet. The policy information was distributed to every employer so they understood what the provisions of the regulations were going to mean. There was also an article in the employer newsletter, intended to provide employers with advance notice. Educational WebEx meetings have been held with employers to explain the bona fide separation requirements. The Division also notified by letter all members of the systems who were within three years of retirement. The retirement application forms contain a certification section that asks if the employee has a prearrangement to continue work with their current employer. If an employee indicates they plan to continue work, DRB has been calling them and explaining the rules that if they plan to work for their employer it will invalidate their retirement. Every time, that prearrangement has disappeared. That process will be different after the effective date of the regulations, which is January 1, 2018. Anybody retiring or any retiree rehiring on or after January 1, 2018 will be subject to the new regulations. DRB will simply return an application where it is marked that there is a prearrangement and inform the employee they are ineligible to retire.

MS. LEA said that because the consequences of the breach of a bona fide separation requirement accrues to the member, DRB is now focusing efforts on educating the members in seminars and Newsbreak articles. When the regulations become effective around December 15, the information will go out on Facebook and Twitter feed. The information is part of the counselling that prospective retirees are going to get.

CHAIR WILLIAMS commented that it makes sense to most people when they retire that they cannot come back into a full-time position, or it has to be a point-49 position. Where he has encountered stronger feedback from teachers or administrators, and particularly human resources people trying to hire, is the treatment for a substitute teacher. Some people think it was something the Alaska Department of Education did or the Department of Administration did. The requirement for a bona fide retirement is something the IRS did (for people retiring before normal retirement age of 62), so any change would have to be done by Congress, because there is nothing the State can do to change these rules.

MS. LEA stated that these are federal qualification rules. However, because of the heavy volume of public comment that the Division received on the substitute teacher issue, Commissioner Ridle will be drafting a letter to Alaska's congressional delegation to ask for some type of exception for substitute teaching.

COMMISSIONER RIDLE added that the ARMB could also send a letter to the Alaska congressional delegation to back the Department of Administration up. She also intended to contact the Governor's D.C. office to get some ideas from them.

CHAIR WILLIAMS related that at the beginning of the school year there were around 165 teaching positions being filled by substitute teachers or that remained vacant. The feedback from the human resources people is that enforcement of this regulation is not doing a service to students or school districts.

COMMISSIONER RIDLE said she agreed.

MS. LEA stated that the new regulations will be effective for all members retiring or rehiring effective January 1, 2018. The regulations will not be retroactive. The retirement plans will be compliant with the IRS as of January 1, 2018.

## **VII. SOCIAL SECURITY PRESENTATION**

### **a. TRS Defined Contribution Plan Social Security Options**

MELANIE HELMICK, State Social Security Administrator in the Division of Retirement & Benefits, provided answers to some follow-up questions from her presentation at the October meeting. She said the TRS DCR Social Security options are the exact same as TRS Social Security options. If she held a Social Security vote, she has to do it by retirement system and cannot split the retirement systems for purposes of a federal Social Security vote.

There are two options for holding a vote. She looked at some very old statutes, and her Social Security authority comes from some 1951 territorial statutes that were grandfathered in when Alaska become a state. The statutes say that the Director of Finance, with Governor approval, could enter into Social Security agreements on behalf of the employees of the State of Alaska. By not saying she cannot do it, she thinks that the Social Security Administration authority has been rested with the Governor and has been delegated to the Commissioner and then down to her as the Social Security Administrator. So, she would call the vote, with Governor approval.

The second option for holding a vote would be by political subdivision, where each political subdivision (each school district) has to come to her with a resolution and say they want to put their people in Social Security through holding a vote.

MS. HELMICK reminded everyone that there are two kinds of Social Security employers in the State of Alaska: mandatory and voluntary. The mandatory employers with TRS employees can never hold a vote. Only the Section 218 employers that have voluntarily enrolled their retirement employees in Social Security could hold a vote. That is 66% of the school districts. The State can never mandate that mandatory employers hold a vote. They are fulfilling their Social Security requirement with PERS and TRS: that is their qualified FICA replacement plan. The voluntary employers are fulfilling their requirement with PERS and TRS but also offering Social Security.

COMMISSIONER RIDLE requested a list of the voluntary and mandatory Social Security employers in the state. MS. HELMICK indicated she would provide that list to the committee.

#### **b. TRS Defined Contribution Plan SBS Options**

MS. HELMICK stated that the eligibility requirements to be an SBS (Supplemental Benefit System) employer are to be enrolled in PERS and not enrolled in Social Security. The employee eligibility requirements for SBS is any person who is an employee of the employer and for whom Social Security contributions would have been made during the year by them if the employer had remained in the federal Social Security System. A person cannot be in SBS unless they are working for an employer that would have been eligible for Social Security.

The SBS plan documents were written in 1980. Voluntary Social Security started in 1955. But in 1991 mandatory Social Security came into effect. So, there is a gap in the SBS plan documents and eligibility documents, and it does not account for the mandatory section of the Social Security Act that was amended in 1991. Before, state and local governments could just voluntarily enroll, but in 1991 the federal government said that it was mandatory to enroll unless they were in a qualified FICA replacement system. Unfortunately, the TRS members are not eligible for SBS because they are not eligible for Social Security. If the TRS members held a vote to vote for Social Security, they could never enter SBS because they would be locked into Social Security, because once a group holds a Social Security vote they are in it forever. So, something would have to be done to SBS plan documents or to create an SBS for ineligibles.

MS. LEA stated that there are two options. One is to start up another defined contribution plan that addresses teachers, firefighters and peace officers, or anyone who is not in Social Security. Second, the State is rolling out a Deferred Compensation Plan in January to all political subdivisions: it

could also amend the deferred compensation statutes to allow for a voluntary employer match. So, there are avenues to get additional contributions going in for these members.

COMMISSIONER RIDLE asked if the Deferred Compensation Plan available to political subdivisions in January would cost the employers anything.

MS. LEA said it would not; all the political subdivisions have to do is report the contributions to Empower Retirement, the State's recordkeeper.

CHAIR WILLIAMS said it sounded like the DCR employees that do not have access to Social Security right now have to get the school board or other entity to say they want to do this, or to get SBS there needs to be some legislative piece that opens it up to ineligible.

### **c. Police and Firefighter Social Security Options**

MS. HELMICK gave a slide presentation on the PERS Police Officers, Firefighters, and Social Security enrollment [*slides dated 11/29/2017 are on file at the ARMB office*]. She started with the timeline of mandatory Social Security for private employers in 1935. State and local government employees remained ineligible for Social Security enrollment until 1951, when the Social Security Administration created voluntary Social Security. Each state enacted legislation and created a Section 218 of the Social Security Act, also known as voluntary Social Security. Alaska's was created in 1951 when it was still a territory.

MS. HELMICK explained that original Section 218 agreements excluded existing retirement systems. In Alaska, this was territorial TRS and the Anchorage Police & Fire Retirement System. The State holds the original Section 218 agreement with the Social Security Administration. The State's political subdivisions joined the original agreement via modifications. Coverage is extended via coverage groups or by a retirement system coverage group. A modification can extend both Social Security and Medicare coverage, or Medicare coverage only, but it can never extend Social Security coverage only.

MS. HELMICK stated that in 1954 Congress was contemplating legislation to extend voluntary Social Security coverage to members of a retirement system that were excluded in the original State Section 218 agreements in 1951. Police and fire organizations across the United States lobbied Congress for an exclusion because they did not want to be included. They got their exclusion. In 1955, five members of previously excluded systems could vote for Social Security enrollment (TRS could vote after 1995, and the University did it and subsequently pulled out). For Alaska this meant that the Anchorage Police and Fire Retirement System could not vote for Social Security coverage. And it meant that any PERS (when the Anchorage system phased out and police and fire members went into PERS) could not vote either, because they had lobbied Congress for an exclusion, and they got it.

MS. HELMICK said that prior to 1983 the states and political subdivisions could enter into and dissolve their Section 218 agreements at will. After 1983, the only way to get out of voluntary Social Security has been for that entity to dissolve. Sixty-six percent of the Alaska school districts are enrolled: the only way for them to get out is for them to dissolve and create a new entity.

MS. HELMICK said that April 1, 1986 was the arrival of mandatory Medicare. All state and local government employees who were not already covered for Medicare through a voluntary agreement were mandatory enrolled in Medicare. In 1991, the Social Security Administration amended the 1935 Act of mandatory Social Security, but not for state and local governments, and extended that so that it became mandatory for state and local government employees to be in a qualified FICA replacement system or in Social Security.

So, for 20 years in the State of Alaska, police and firefighters were not covered (and across most of the United States). During this 20 years some states pushed Congress for exceptions to the rule and got them, but Alaska was not one of those states.

In 1994, the Social Security Independent and Permanent Improvement Act gave states the option to extend Social Security and Medicare coverage to police and firefighter positions under a retirement system. The state could extend coverage, if it had authority to do so, and if the state's Section 218 agreement had a modification to cover these police and fire positions.

Going back to 1951, the Alaska statute from territorial days does not say the Social Security Administrator *does not* have the authority to extend coverage, so Ms. Helmick talked with the Social Security Administration and learned that she does have the authority to extend coverage. She has Modification 186 to the Federal Territorial Agreement, so the State is legal to extend coverage to police and firefighter groups, should they vote for it.

COMMISSIONER RIDLE asked if it would be the same as for the school districts, where all the municipalities would have to vote in separately for police and firefighter Social Security and Medicare coverage.

MS. HELMICK said yes. She would need a resolution from the governing body, which would be the assembly in Anchorage's case. For a school district, the resolution would have to come from the school board. The Social Security Administration will not approve it unless she has a resolution accompanying the modification in the vote package.

MS. HELMICK reviewed how to get police and firefighter PERS member Social Security coverage. Enrollment can only be for Section 218 employers, never for mandatory employers. She would hold a retirement system vote for all police and fire members enrolled in PERS. She cannot hold a defined contribution member vote only, and she cannot split the vote by tiers. All police and fire members at that employer have to vote. The first thing is that the governing body has to pass a resolution. The governing body also has to tell her who they want to vote for Social Security coverage and how they want to vote: police or firefighters, or do they want both groups to vote. The government body must also say if they want a majority rules vote or a divided vote. Under majority rules, a no-show is a no vote. Very important to note is that those people voting have to meet the Social Security definitions of a police officer or a firefighter.

CHAIR WILLIAMS noted that if it were a divided vote because some police or firefighters do not want Social Security and vote no, things stay the same for them and they retire, and then the

position rolls into Social Security coverage. Some police and firefighters may really want Social Security and they vote yes. People are getting 100 percent of the choice that they want there. For an employer worried about money going out, the more divided the vote is, the less money they have to put out. It would be a transition. He asked if there was a scenario where the majority-rule would be preferred.

MS. HELMICK said not in this case. She held a vote in Barrow for a housing authority that had 12 members in Social Security. They really needed to hold a vote, and they had been in there for 25 years. She retroed it back and held a majority rules vote, so there are instances where the employer would want to hold a majority rules versus divided vote. Since everybody has to vote, even the police officer with 29.9 years of service who is going to retire next month, that officer would not vote for Social Security, so a divided vote would be a way to let people decide and then roll it in slowly. Once an entity agrees to Social Security coverage, and they have a favorable vote, whether it is divided or majority rules, those positions are always going to roll into Social Security coverage. If not all at once with a majority rules vote, it will come with the divided vote as people retire out of non-covered positions. Social Security coverage will become permanent.

MS. HELMICK presented a list of 23 Section 218 employers where police and firefighters are PERS members. That is 23 employers that have police, fire or both that could potentially hold a vote to get those people Social Security coverage.

She also presented another list of mandatory employers, where it is mandatory to enroll their employees in Social Security, unless they are in a qualified FICA replacement system. PERS is such a system, and there is no way those people can get Social Security coverage. The door is closed for them. Theoretically, those employers could become a voluntary employer, sign a Section 218 agreement, and cover all their PERS employees for Social Security (not just police and fire). There are employers that cannot even pay their PERS bills, so they are unlikely to add the cost of Social Security to their budgets.

COMMISSIONER RIDLE observed that the first list of 23 employers are already doing Social Security, so they would just have to pass a resolution to hold a vote to add police and firefighters. Those employers have already budgeted and have been doing this for a couple of decades. The other group of employers have not, it is not in their budget, and it would be harder for them today to get everyone in Social Security.

MR. BRICE remarked that it is not a legal hurdle for the mandatory employers; it is a money hurdle.

MS. HELMICK stated that the old Anchorage Police and Fire Retirement System has 17 members. Those members can vote for Social Security and Medicare enrollment, or they can vote for Medicare enrollment only.

MS. HELMICK explained that a member has to be eligible under Social Security to be able to enroll in the Supplemental Benefit System (SBS), and most police and fire members are not eligible for SBS because no vote has been held. If a vote were held for them, they would be automatically enrolled in Social Security, so they would never have the SBS option either, unless

Anchorage Police and Fire or any other one of those employers said they wanted to do Social Security and SBS. That is possible, but they need to be in voluntary Social Security for them to be eligible for SBS. The other alternative to get them in would be to change SBS.

MS. HELMICK said there are five SBS employers with police and firefighters. She said she had not had time to do the research, but she imagined that it was something like the City & Borough of Juneau being in Social Security, where there is a twist that has to do with the dates when agreements were signed.

MS. HELMICK said the cost of Social Security coverage is 6.2% for the employer and 6.2% of earnings for the employee. In general, a person needs 40 credits to qualify for Social Security benefits. Social Security credits count towards Medicare eligibility at age 65. Everyone must sign up for Medicare coverage at age 65, and some people can become eligible earlier due to disability.

CHAIR WILLIAMS observed that, in terms of retirement, the police and firefighters and other ineligible in TRS, unless they are doing a tax-deferred annuity or something outside, have the defined contribution plan and that is it. Other possible legs of support that have been discussed are becoming eligible for Social Security, or the possibility of coming into SBS, which would be a legislative remedy. He asked Ms. Lea about her mention of possibly creating a deferred compensation with a voluntary employee piece and if that would also require legislative action.

MS. LEA replied that the State's Deferred Compensation Plan would need to be amended to allow for a voluntary employer match. Right now, the State can roll it out to any political subdivision or school district that wants to participate, without a match. It would require legislation to have an employer match. The reason it is being rolled out is because the DCR participant is not paying that additional contribution that an employee in a similar job is paying. This allows them to take that from their pay and put it in the Deferred Compensation Plan, if they choose.

CHAIR WILLIAMS asked if it required legislation to have a voluntary employer match.

MS. LEA said yes, and it would be fairly simple legislation. It would not be as huge as standing up a new plan or making amendments to the SBS Plan.

COMMISSIONER RIDLE pointed out that it may be simpler, but it is still voluntary. There would probably be a bunch of municipalities or school districts that would not opt in. While it would be building another leg of retirement income, she regarded it as a "little" leg.

CHAIR WILLIAMS said it sounded like Social Security could be a leg, SBS could be leg, and if there was a mandatory piece – which would be much harder to get set up – that could possibly be a leg. The question is, does it become a leg if it is voluntary?

MS. HELMICK noted that, just like PERS, there are SBS participation agreements. Once an employer joins SBS, then the employer contribution portion is mandatory.

COMMISSIONER RIDLE asked if it was possible that different employers that went through the process and joined SBS could offer different matches.

MS. LEA said that you can mandate a flat-percentage match or an up-to match. Care has to be taken on the limits, which the IRS allows up to about 5.5%. The combination of the employer and employee contributions cannot go over the IRS limits, which is the Social Security contribution limit for the year.

MS. HELMICK reported that she gave the Social Security and TRS presentation to the Alaska School Business Officials on the 28<sup>th</sup>, and an employer subsequently contacted her that was interested in holding a Social Security vote.

CHAIR WILLIAMS thanked her for the sequel presentation today, which contained a lot of interesting information.

### **VIII. UPDATE ON RESEARCH FOR DISBURSEMENT OPTIONS**

Chief Investment Officer BOB MITCHELL provided an update on investment staff's research for retirement plan disbursement options. SHANE CARSON, Manager of External Public Equity and DC Investments, also joined him.

MR. MITCHELL stated that prior to the last committee meeting in October he, Kathy Lea, and Shane Carson met to identify the goals of spend-down or disbursement options in the plans. They identified three goals: (1) income certainty; (2) liquidity (the ability to change one's mind over time); and (3) survivor benefits. Subsequent to the October committee meeting, he and Mr. Carson met with representatives from Fidelity and Callan Associates. An important take-away was the Fidelity representative's observation that plan providers are reticent to provide spend-down solutions because there is no Safe Harbor or guidance from the U.S. Department of Labor. It is something to keep in mind as the committee looks at the options.

MR. MITCHELL said he talked to Laurie Lucas at Callan subsequent to the call with Fidelity. She echoed the same observation about the reticence of plan providers to provide spend-down solutions. He inquired about the state-of-the-art products that are being offered and who are the best-in-class providers. Ms. Lucas later forwarded a list that included annuity providers, plan spend-down providers, as well as providers of options that embed annuities into investment products. She also gave a list of financial planners and managed account solution providers.

MR. MITCHELL said staff eliminated the last two groups because those are already offered to the plan participants and focused on the first three groups. There is a list of eight firms, and Mr. Carson added a ninth one. They contacted all those providers to give a presentation to him, Mr. Carson and Ms. Lea in the first week of January. Those include the three presenters that talked to the DC Plan Committee in 2016. After that, staff will meet and discuss what they learned from the presentations and assess how they might fit into offerings for DCR, Deferred Compensation, and SBS participants. In March they will present their observations and potentially a set of recommendations and presenters for the committee's consideration.

MR. BRICE said what stuck in his head from the conversations in 2012 was the participants' desire for liquidity. If he wanted an annuity, he thought a legitimate tradeoff would be to give up liquidity. If the goal was to provide a spend-down option and liquidity, and if there was a question of quality and options, he would give up liquidity.

MR. MITCHELL responded that he is becoming more appreciative of the fact that there are more similarities between participants in the accumulation phase than in the decumulation phase. The first phase is simply about saving enough money, but retirement means different things to different people. Having a suite of hopefully stand-alone options to choose from would help various participants assess what their goals are in retirement and have a way to reach those goals.

CHAIR WILLIAMS said that he did not view liquidity, income certainty, and survivor benefits as weighing equally. As a DCR participant, for example, he felt there was a very small premium to pay to have the security of survivor benefits. Regarding cost, he wondered if there was some way to provide retirement options at a "Costco" price, rather than a "vending machine" price.

MR. MITCHELL stated that cost is a consideration. In general, some of the feedback he has gotten so far is that the Alaska DCR plan is not big enough to really provide scale. Ms. Lucas suggested trying to find other plans that are similarly intentioned and team up with them. Another option he thought of would be looking for ways to take advantage of the scale that Alaska has on the defined benefit side. There may be a kind of rent-to-own type of option – there is a precedent with the Voluntary Savings Program, as an example. In addition, there may be options that, ultimately, the State could manage internally.

MR. MITCHELL said another facet would be to potentially look at the current plan provisions to see if there are any decision points that are encouraging people to leave the system. Examples would be to what degree there is flexibility in terms of making a decision, can a retiree revisit that decision later, does a retiree have to make a decision with all of their assets or a portion of their assets, etc.

The current timeline is to present specific ideas for consideration at the March committee meeting, maybe continue the discussion at the June meeting, or at some point elevate the topic to the Board.

CHAIR WILLIAMS said he appreciated staff's efforts to find some disbursement options that DCR participants would be excited about. One thing worth getting excited about is when the Deferred Compensation Plan opens up to other employers. He wanted plan participants to fully understand that they will be able to tap into something that is a really good value and not something that is easy to get.

MR. MITCHELL said that, in terms of the range of options that are available in the Deferred Compensation Plan and the cost of those options, they are very competitive.

## **IX. COMPARING LONG-TERM FINANCIAL HEALTH OF DIFFERENT DEFINED CONTRIBUTION CATEGORIES**

MR. MITCHELL stated that in informal discussions after the last education conference he had mentioned that he had worked on a project for the previous Commissioner of the Department of Administration and the Division of Retirement & Benefits Director, Ajay Desai. The project was to build a Monte Carlo simulation that simulated the experience of the participants in the defined contribution plans. Staff accomplished that task, and preliminary results were completed in August, 2017.

MR. MITCHELL briefly spoke about the results of the project to determine the probability of a DCR plan participant, who retires from the system after 30 years and draws an income that is 70% of their final salary, having sufficient assets in the retirement plan to survive for 30 years. The simulation assumed the participant was enrolled in the default option (the appropriate target date fund) throughout the 30-year retirement and pulled their retirement income from that asset over time. Staff looked at DCR PERS with the Supplemental Benefit System and Police & Fire with SBS.

Staff used Callan's capital market assumptions in a manner similar to what was presented at the June ARMB meeting, which started with 10-year assumptions scaled into Callan's long-term assumptions over the next 10 years, and then went with the long-term assumptions for the next 40 years. Embedded in that is an inflation assumption of 2.25% and that salary would increase at a rate that is 50 basis points higher than inflation over time. He highlighted that point because it was different than what the Actuarial Committee was hearing from the actuary earlier about the embedded inflation assumptions for participants. With the benefit of that information, MR. MITCHELL said he thought the committee might want to revisit that assumption in this model. The actuary is using an assumption that is scaled down over time.

MR. MITCHELL said the third category staff looked at was TRS DCR with no SBS. He later added a category that was TRS DCR plus Deferred Compensation contribution that equals 6.13% of their income. There are slight differences between TRS and PERS, but he characterized a total pay-in into the retirement system as 25% of income for the PERS plus SBS and Police/Fire plus SBS. For TRS only, it was about 15% of income. For TRS plus the 6.13% Deferred Compensation contribution, it was about 21% of income.

Staff ran the results, and in the first two cases, which are dynamically the same, the probability of having sufficient assets to have a balance left over after 30 years in retirement was about 70%. The probability for participants that were TRS only (no SBS or Deferred Comp) was almost 30%. The probability for TRS with the 6.13% Deferred Compensation contribution was 56%.

MR. MITCHELL said that staff could revisit the assumptions and tweak them. Tying back to the previous agenda item, as the committee starts to look at some of the investment options to bring to the table, staff could integrate them into the baseline model to see what impact they might have on outcomes – the probability of success, as well as the distribution of success. It would be very difficult to ensure 100 percent success but evaluating the distribution of outcomes and how that changes with new investment products might be a good place to go.

MR. BRICE commented that this was good information, and it sounded like having access to the Deferred Compensation Plan really helps.

CHAIR WILLIAMS asked if the probability of having any assets left over after 30 years in retirement for Police & Fire with no SBS would be more like the TRS-only participants at 29%.

MR. MITCHELL stated that if there are Police & Fire or PERS employers that do not have SBS, they might actually have a lower probability of success because the contribution would be two percentage points lower than it is for TRS.

CHAIR WILLIAMS inquired if staff had the information in a report format to share with the committee.

MR. MITCHELL said it was in spreadsheet format, and the Treasury Division has access to an add-on that allows them to run Monte Carlo simulations within the Excel environment. It produces output that staff could try to put into a consumable format.

CHAIR WILLIAMS said he gathered that the Monte Carlo simulation idea was that when the defined contribution is one of multiple legs for retirement, including SBS and Defined Contribution, success is achieved around 70% of the time. But if defined contribution is the only leg that people are using for retirement, success (defined as having sufficient assets to have a balance left over after 30 years in retirement) falls to around 30%.

MR. MITCHELL confirmed that conclusion and added that it also highlights the importance of Deferred Compensation for the TRS population.

COMMISSIONER RIDLE referred to allowing the political subdivisions to opt into the State's Deferred Compensation Plan. She cited her own experience of having a deferred compensation type option when employed at a municipality and a similar type savings option as a teacher. She asked if the political subdivisions being able to opt into the State's Deferred Compensation Plan was a case of adding another plan to existing savings options already being offered by some employers.

MS. LEA stated that the municipalities of Anchorage and Mat-Su have deferred compensation type options, but many of the smaller political subdivisions have nothing. If an employer wants to add the State's 457 Plan to an existing plan, they can do so. The employer just has to make sure they keep track of the contributions to both plans, because the total allowed contribution in a year does not change. The Division is aiming the roll-out of the State's 457 Plan (Deferred Compensation Plan) to those employers that feel they cannot afford a plan because they do not have the capability to administer a plan. The other reason to offer the State's plan to employers is that the fees are very low, and more of their employees' contributions will go to their retirement savings.

COMMISSIONER RIDLE asked Mr. Westcott if the Police & Fire could participate in the Anchorage Municipality's 457 plan.

MR. WESTCOTT replied that in Anchorage they have both the 457 plan provided by Empower Retirement and a 401 option by T. Rowe Price. Fairbanks has a 457 plan also.

#### **X. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE**

MR. BRICE said he wanted to keep in the forefront the discussion about what happens to people's retirement contributions as they separate from the State, in terms of distribution, roll-over, etc.

DRB Director AJAY DESAI stated that he and Kathy Lea have been working with Empower to get the study since the implementation of the defined contribution plan in 2006.

MR. BRICE said his big concern since the defined contribution plans were implemented is about the people he represents who work for the State for six or seven years and then leave their job. That is a substantial amount of earning period to be putting away for their retirement. His concern is that society in general is going to hit a wall where nobody has saved enough, and there is going to be a massive crisis and falling back onto Medicaid, Medicare and Social Security benefits. He wanted to be prepared to avoid that type of scenario for Alaskans.

CHAIR WILLIAMS remarked that people often choose a career of public service that ties to a good mission and vision, and they can see the benefit. But the idea of working for 30 years, retiring, and then coming out at the wrong end of the Monte Carlo simulation and having a 71% chance that they will need to be on public assistance is very humiliating to people. The work to help strengthen people's chances of a secure retirement is very important.

CHAIR WILLIAMS informally polled the committee members about any opposition to making a recommendation that the ARMB support the Department of Administration's bill (to remove the disbursement options that are specifically listed in statute so they can be put in regulation instead, allowing flexibility to change options in the future through the regulation process). He also asked if everyone supported backing up the Department of Administration sending a letter to Alaska's congressional delegation to ask for an exception from the new regulations on bona fide separation as they applied to substitute teachers.

MR. BRICE expressed some misgivings on the bona fide separation issue, where he has heard grumblings on the State side about supervisors who are incapable of building and developing their workers to take over when it is time for the supervisor to leave. He clarified that he was not talking about teachers in this case. He did not regard the six-month separation rule as necessarily a bad thing.

COMMISSIONER RIDLE said that the State side was a little different because it is a bigger unit, but the small towns with a lack of personnel are getting hit – not similar to the teacher situation – but they only have a certain pool of people to draw from.

MR. BRICE said there is pressure on employers on wages and benefits, and re-employment relieves the pressure or takes away the employer's responsibility to actually develop the workforce and take care of some issues. He appreciated the commissioner's comment about the smaller

employers, which are in more difficult situations. He has some sympathy but also understands that some of it is of their own making.

CHAIR WILLIAMS stated that his report to the full Board at tomorrow's meeting would mention general support for the idea of the ARMB supporting the Governor's bill on disbursement options, and that there was agreement of supporting an exception for the separation piece, particularly in terms of school districts and substitute teachers and retired teachers.

#### **XI. PUBLIC/COMMITTEE MEMBER COMMENTS**

There were no comments.

#### **XII. ADJOURNMENT**

The meeting adjourned at 4:36 p.m., on a motion made by MR. BRICE and seconded by COMMISSIONER RIDLE.

Note: The summary minutes are prepared by an outside contractor, and the information is extracted from staff's recording of the meeting. The digital recording and the documents reviewed and discussed are on file at the ARMB office.

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